Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Application by Verizon for Authorization	)	
Under Section 271 of the Communications	)	
Act to Provide In-Region, InterLATA	)	CC Docket No. 01-347
Services in the State of New Jersey	)	
	)	

COMMENTS OF WORLDCOM, INC. ON THE APPLICATION BY VERIZON FOR AUTHORIZATION TO PROVIDE IN-REGION, INTERLATA SERVICES IN NEW JERSEY

Robert Lopardo
Keith L. Seat
WORLDCOM, INC.
1133 19th St., N.W.
Washington, D.C. 20036

(202) 887-2993

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INTRODUCTION AND EXECUTIVE SUMMARY

There is a shocking lack of local residential competition in New Jersey given the large population, favorable location, high density and level of systems in place in the state. Verizon admits that competitors have only 800 residential unbundled network element platform ("UNE-P") customers in the entire state, and no cable telephony customers, compared to Verizon's 4,273,839 residential lines. Verizon tries its best to hide behind the retail rates in New Jersey, asserting that residential competition just can't be expected in the state, but total local revenue from residential customers is actually higher than in Texas and on par with Florida, both of which WorldCom has entered, and near the level of other states.

The fact is that robust local residential competition is not only possible, but would occur in New Jersey if Verizon reduced its UNE rates to cost-based levels. Verizon has been compelled to reduce its extremely high UNE rates in recent weeks, but they remain too high. The New Jersey Board of Public Utilities ("BPU") has also raised concerns over the finality of the UNE rates and whether Verizon would have the temerity to challenge the rates even though it relies on them for purposes of this section 271 proceeding. In fact, the situation is worse than that, for the New Jersey BPU has not yet issued its final order explaining its rate decision, so interested parties cannot yet determine the bases on which the critical UNE rates in the state were established. Thus, our analysis of issues under the total element long run incremental cost ("TELRIC") methodology is limited because the full explanation for how the rates were derived has not yet been made.

What is certain is that the UNE rates, particular for switch usage, are far too high. While not as outrageous as Verizon's pending application in Rhode Island, the switching rates alone are sufficiently high to erect barriers that prevent residential competition in New Jersey. When it comes to preventing competition, blocking viable entry with a two or three dollar loss per line each month works just as well for the incumbent as a much larger loss. If only Verizon's UNE rates were reduced to cost-based levels at the low end of what the Commission considers the range of TELRIC, the price barrier would be eliminated and robust local residential competition could and would occur in New Jersey, as in other states WorldCom has entered.

Once again, however, Verizon seeks to rely on switching rates in New York and Massachusetts that are known to be excessive, and that those state commissions are in the process of revising downward to be closer to TELRIC. But as suggested by the U.S. Circuit Court for the District of Columbia Circuit in its December 28, 2001 remand of the Commission's Kansas-Oklahoma decision, it makes no sense to approve UNE rates at the high end of the TELRIC range found reasonable by the Commission, if that presents a price squeeze which blocks local competition in the state in issue.

This issue is very serious for WorldCom, because these excessive UNE rates prevent WorldCom from being able to bring local competition to the consumers of New Jersey, as we would like to. Pricing is the single critical issue in New Jersey for WorldCom. Because we are unable to enter the market we do not have the commercial experience to be able to discuss the adequacy of the New Jersey operational support systems ("OSS") as a practical matter.

Verizon has pricing problems in New Jersey with both switching and loops, which are the two most important network elements required for local competition. Verizon made errors in both inputs and methodology that overstate switching rates and, as best we can ascertain from the record before us, include the fact that Verizon: used only the minutes for workdays to determine the per-minute switch usage rates, which it nonetheless applies to weekends and holidays; failed to fully use the new switch discount to determine the best price for switches; improperly charges twice for intra-switch calls; and included the cost of vertical features (which do not increase with usage) in the switch usage charge rather than the switch port. As a result, Verizon's rates in New Jersey substantially exceed the level recently found proper in the New York Administrative Law Judge's ("ALJ's") Recommended Decision. On loops, Verizon uses several inputs in setting rates that are inconsistent with TELRIC principles, including the assumed level of use of fiber in the feeder and low fill factors.

Apart from whatever other TELRIC errors may exist in the final order that the New Jersey BPU eventually issues, it is clear that an unnecessary price squeeze exists in the state. Given the high UNE rates in New Jersey competitors would lose money on average on every line for every consumer every month, after covering the expenses of customer service, customers who do not pay their bills, and other so-called internal costs.

Verizon should reduce its rates to eliminate the TELRIC errors and move to the lower end of the Commission's TELRIC range in order to eliminate this price squeeze. Eliminating the price squeeze of competitive local exchange carriers ("CLECs") will permit residential competition to develop in New Jersey for the benefit of consumers and to fulfill the goals of the Telecommunication Act. But until Verizon's pricing problems are resolved, its application for New Jersey must be denied.

TABLE OF CONTENTS

TABLE OF ATTACHMENTS

TAB	DECLARANT	SUBJECT
A	Declaration of Vijetha Huffman	Price Squeeze
B	Declaration of Chris Frentrup	TELRIC Pricing

TABLE OF CITATION FORMS

FCC Orders	
Kansas-Oklahoma Order	In re Application of SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region, InterLATA Services in Kansas and Oklahoma, CC Docket No. 00-217, Memorandum Opinion and Order, 16 F.C.C.R. 6237 (2001), aff'd in part and remanded, Sprint Communications Co. v. FCC, No. 01-1076, __F.3d__, 2001 U.S. App. LEXIS 27292 (D.C. Cir. Dec. 28, 2001).
Local Competition Order	In re Implementation of the Local Competition Provisions in the Telecommunications Act of 1996, CC Docket Nos. 96-98 & 95-185, First Report and Order, 11 F.C.C.R. 15499 (1996).
Massachusetts Order	In re Application of Verizon New England Inc., Bell Atlantic Communications Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d//b/a Verizon Enterprise Solutions), And Verizon Global Networks Inc., For Authorization to Provide In-Region, InterLATA Services in Massachusetts, CC Docket No. 01-9, Memorandum Opinion and Order, 16 F.C.C.R. 8988 (2001).
Michigan Order	In re Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services in Michigan, CC Docket No. 97-137, Memorandum Opinion and Order, 12 F.C.C.R. 20543 (1997).

FCC Orders	
Pennsylvania Order	In re Application of Verizon Pennsylvania Inc., Verizon Long Distance, Verizon Enterprise Solutions, Verizon Global Networks Inc., and Verizon Select Services Inc. for Authorization to Provide In-region, InterLATA Services in Pennsylvania, CC Docket No. 01-138, Memorandum Opinion and Order, 16 F.C.C.R. 17419 (2001).
USF Tenth Report and Order	In re Federal State Joint Board on Universal Service, CC Docket No. 96-45 & 97-160, Tenth Report and Order, 14 F.C.C.R. 20156 (1999).
Declarations and Affidavits	
Frentrup Decl.	Declaration of Chris Frentrup on Behalf of WorldCom (Tab B hereto).
Huffman Decl.	Declaration of Vijetha Huffman on Behalf of WorldCom (Tab A hereto).

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Verizon's switching and loop rates in New Jersey are infected by TELRIC errors that push them too high in the range that the Commission considers TELRIC. This creates a price squeeze that prevents the robust local competition that would exist if Verizon's UNE rates were at the lower end of the range. Verizon thus fails to meet both the public interest test, 47 § U.S.C. 271(d)(3)(C), and checklist item two, 47 § U.S.C. 271(c)(2)(B)(ii), which imposes on Verizon the burden of proving that it has made available unbundled network elements at just, reasonable and non-discriminatory prices based on the costs of the elements.

The U.S. Court of Appeals for the District of Columbia Circuit recently made clear in Sprint Communications Co v. FCC, No. 01-1076, 2001 U.S. App. LEXIS 27292 (D.C. Cir. Dec. 28, 2001), when remanding the Commission's Kansas-Oklahoma section 271 order, that under the Act's public interest test the Commission must carefully consider whether the applicant's UNE rates create an anticompetitive price squeeze that prevents local competition. As discussed below, and in the accompanying Declaration of Vijetha Huffman, that is precisely the case in

New Jersey, which has enabled Verizon to continue its monopoly domination of the residential market.

The D.C. Circuit emphasized that the issue is not whether competitors should be guaranteed profitability, "but whether the UNE pricing selected here doom[s] competitors to failure." Sprint Communications, 2001 U.S. App. LEXIS 27292 at *11. Moreover, the court expressly rejected the argument made by Verizon in this application that low retail rates provide an excuse for competitive problems, since "the remedy, if any, could take the form of the Commission's fixing the wholesale rates, which were under its jurisdiction, at a lower level within 'the zone of reasonableness.'" Id. at *12 (citation and internal quotation marks omitted). Competition in New Jersey needs no more than this.

Underlying the public interest issues, there are TELRIC problems in New Jersey. While differences in network costs among states mean that cost-based wholesale rates will vary somewhat, the FCC has made clear that states are not free to approve rates at any level they choose as long as they call them "TELRIC." "[I]t is not the label that is critical in making our assessment of checklist compliance, but rather what is important is that price reflect TELRIC principles and result in fact in reasonable, procompetitive prices." Michigan Order ¶ 290.[1] A rate falls within a reasonable range to the extent any departure from the norm can be explained by specific relevant conditions in the state. "Reasonable range" is not the same as "anything goes." The Commission has made clear that checklist compliance is not a sterile, academic exercise, but a legislative test to assure that local markets are open for competition. The

[1] Full citations for the authorities included in these comments are included in the Table of Citation Forms.

Commission adopted TELRIC precisely "to expedite the development of fair and efficient competition." Local Competition Order ¶ 618.

By definition, "cost-based" rates must be supported by cost studies proving that the rates are derived from the forward-looking cost of providing the leased elements, taking into account the particular circumstances present in each state. The Commission has specifically stated that it expects "a BOC to include in its application detailed information concerning how unbundled network element prices were derived." Michigan Order ¶ 291 (footnote omitted). Rates cannot be proved to be "based on cost" unless there is some way to compare those rates with the BOC's underlying network costs. Moreover, in addition to the technical analysis provided by supporting cost studies, the Commission has found relevant comparisons with rates and inputs in other states, Kansas-Oklahoma Order ¶¶ 82, 87, as well as comparisons to the costs that are computed in the Commission's own Synthesis Model used for setting the universal service subsidy. Id. ¶¶ 80, 84; Pennsylvania Order ¶ 65.

The Commission is expressly prohibited from granting a section 271 application unless it has determined whether a BOC has met the requirements for interLATA in-region entry, including the requirement of cost-based pricing of unbundled network elements. See 47 U.S.C. § 271(d)(3)(A). Section 271 also establishes the level of deference the Commission owes to other agencies' review. The Commission is required to consult with the Attorney General and to give "substantial weight" to DOJ's evaluation. See id. § 271(d)(2)(A). The Commission is also required to consult with the applicable state commission, but does not owe any particular deference to its views. See id. § 271(d)(2)(B). The Commission has therefore acknowledged that it has the exclusive responsibility for determining checklist compliance (Michigan Order ¶ 282), a conclusion also reached by the D.C. Circuit (SBC Communications v. FCC, 138 F.3d 410, 416-17 (D.C. Cir. 1998)).

Procedural Posture. The new UNE rates in New Jersey have not yet been finally or properly implemented. The New Jersey BPU announced its decision on UNE rates on November 20, 2001, and issued a summary order on December 17, 2001. However, the BPU's summary order is not a final, appealable order. Until the BPU issues a final order, motions for reconsideration and appeals are premature. As of the date of these comments, Verizon has not indicated whether it will file any motions for reconsideration or otherwise take any appeal from these rates. Verizon obviously should not be allowed to simultaneously rely on these new rates to support its section 271 application and later challenge the new rates either in a reconsideration or appeal.[2] In addition, even apart from the absence of a final order, there are still issues pending before the BPU on Verizon's implementation of the UNE decision. WorldCom has filed two motions for clarification with the BPU, raising some of the issues that it raises in the attached Declaration of Chris Frentrup, which relate to how Verizon has implemented the BPU's decision, rather than the merits of the BPU's decision.[3] The BPU has not yet addressed these motions.

[2] Verizon challenged the BPU's prior UNE rate decision by filing a motion for "technical corrections." The chronology of that prior UNE rate decision is helpful in understanding how long it may take to get "final" rates if Verizon decides to make such a challenge. The last time the BPU addressed UNE rates the BPU announced its decision in July 1997 and issued its written order in December 1997. Verizon filed its motion for "technical corrections" in January 1998 and the BPU granted Verizon's motion in November 1998 (ten months later).

[3] WorldCom's motions for clarification deal with the issue of flat rated switching, the issue of Verizon's attempt to impose the switch usage rate on all minutes of use, and Verizon's attempt to double charge the switch usage rate for intra-switch calls. Other issues, such as the inclusion of the vertical feature costs in the switch usage rate, the switch discount issues, and the loop modeling issues must await reconsideration motions or appeals -- both of which are dependent on the BPU's final order in the UNE rate case.

Even assuming the current rates that Verizon appears to be charging become final, Verizon's switching and loop UNE rates exceed TELRIC levels and cause a price squeeze of competitors in New Jersey. Until input and methodology errors are corrected and rates reduced to appropriate levels that eliminate the price squeeze, it would be arbitrary and capricious for the Commission to grant Verizon's section 271 application.

I. VERIZON'S ABOVE-COST UNE RATES CREATE A PRICE SQUEEZE AND ARE NOT IN THE PUBLIC INTEREST

Verizon's UNE rates are too high to permit ubiquitous local residential competition anywhere in the state, depriving New Jersey consumers of all the benefits of competition. The Commission should reject Verizon's section 271 application until it has corrected its UNE rates to reflect TELRIC in the range that will eliminate the price squeeze of competitors and permit broad scale local competition in New Jersey.

As explained in the accompanying Declaration of Vijetha Huffman, WorldCom would like to serve a broad range of customers in New Jersey, as other states, by offering a package that includes local service to the mass residential market. Due to Verizon's high prices for UNEs, however, WorldCom is unable to do so. This is unfortunate for it deprives consumers of the opportunity to benefit from new and innovative products and to save money on their telephone bills. In addition, a strong local presence is essential to WorldCom's competitive success in providing service to residential customers, since many residential customers desire fully integrated telecommunications services, including local, long distance, and more. Huffman Decl. ¶¶ 3-4.

There is a serious price squeeze in New Jersey, which means that even a CLEC selling local residential service for the same price as Verizon would not make nearly enough money to pay for the cost of the elements it leases to provide the service and its own internal costs. Huffman Decl. ¶ 11. In the most favorable zone, the gross margin between a CLEC's revenues and telco costs using UNE-P would be only $7.44 per line each month, which is not sufficient to cover a company's internal costs of more than $10 dollars per line each month.[4] It goes downhill from there, for the gross margin in the other two zones is only $5.73 and $3.85, even before the CLEC covers any internal costs. The statewide gross margin is $5.62 in New Jersey, meaning that on average a CLEC would lose several dollars on every customer every month after covering its internal costs. CLECs would also be seriously under water based on the price squeeze calculations described in the BPU's November 20, 2001 transcript.[5] Id.

Verizon repeatedly claims that the lack of local residential competition must simply be accepted because New Jersey's residential retail rates are the lowest in the country, but in fact the total local revenue from residential customers in New Jersey is higher than in Texas (where WorldCom long ago entered), comparable to Florida (where WorldCom recently entered), and

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[4] The Huffman Declaration explains the monthly revenue a carrier would receive if it provided basic local service with one feature at the same retail price Verizon charges, and then subtracts from that revenue the costs of the leased unbundled network elements. Switch usage is one of the big cost drivers in New Jersey, and WorldCom's analysis is built on its experience in New York, Pennsylvania, and other states. Huffman Decl. ¶¶ 9-10. From the revenue left after paying telco, i.e., the gross margin, a carrier must then cover its own internal costs, which typically include customer service costs, costs associated with customers who don't pay their bills, billing and collections, overhead, marketing costs, and other operational costs. As described in detail in the Huffman Decl. these internal costs exceed $10 per line per month, even apart from significant up front development costs. Id. ¶ 8.

[5] In the Matter of the Board's Review of Unbundled Network Element Rates, Terms and Conditions of Bell Atlantic - New Jersey, Inc., Docket No. TO0060356, Agenda Meeting Transcript at 31-35 (N.J. Bd. Pub. Utils. Nov. 20, 2001). While the BPU staff appeared to present a price squeeze analysis during the November 20, 2001 Agenda meeting, it is important to note that this price squeeze analysis was not part of the original UNE case. Further, when parties -- including WorldCom and the Ratepayer Advocate -- attempted to inject issues raised by the new UNE rates

not far from many other states. Huffman Decl. ¶ 15. Indeed, the New Jersey BPU characterized repeated references to very low retail rates as a "straw person of enormous overuse" and noted that the average local revenue in New Jersey is in the $20-30 range.[6] Moreover, the D.C. Circuit Court just weeks ago expressly rejected the argument that retail rates must bear the blame for the lack of competition, when UNE rates can be lowered within the zone of reasonableness. Sprint Communications, 2001 U.S. App. LEXIS 27292 at *12.

Unlike New York's high UNE rates that were specifically found by the New York commission and the FCC to permit local residential competition due to New York's generous retail rates, ubiquitous local residential competition is not possible in New Jersey due to Verizon's UNE rates, as discussed above. As raised by the D.C Circuit Court in Sprint Communications, the Commission should require Verizon's rates to be at the low end of the Commission's TELRIC range in order to eliminate the price squeeze and permit widespread local competition in New Jersey. Verizon must establish prices that allow competitors to gain customers without losing money in order to achieve irreversible residential competition in New Jersey. Huffman Decl. ¶ 17.

While BOC applicants routinely claim that granting section 271 entry will have a dramatic effect on the local residential market, we now have enough experience to rely on facts rather than rhetoric. The facts are relatively straightforward, and it should come as no surprise that section 271 entry does not have the magical impact that applicants claim. Applicants

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in the state 271 case, the BPU rejected those efforts. As a result, those issues were never raised or dealt with in the state case.

carefully choose to spotlight and extrapolate from states where local competition was already well under way prior to section 271 authorization, and do their best to ignore the greater number of states where residential competition could not thrive before the section 271 application and cannot develop after section 271 entry, including Massachusetts, Kansas, Oklahoma, Missouri, Arkansas and Connecticut.

Where barriers to entry such as anti-competitive pricing and discriminatory OSS are eliminated, WorldCom will use UNE-P – the only viable service delivery vehicle – to enter residential markets. WorldCom offers local residential service using UNE-P in an increasing number of states in which conditions permit entry in at least some part of the state, namely New York, Texas, Pennsylvania, Michigan, Illinois, Georgia and even limited parts of Florida. WorldCom goes where it can reasonably hope to enter based on UNE rates and OSS, not where section 271 has been granted. WorldCom has entered many states that have not been granted section 271 authority (Michigan, Illinois, Georgia and Florida). Moreover, of WorldCom's entry states that have been granted authority (New York, Pennsylvania and Texas), WorldCom entered well before section 271 authority was granted, sometimes by more than a year. Section 271 approval has not caused WorldCom to enter any state: WorldCom has not entered Massachusetts, Kansas, Oklahoma, Missouri, Arkansas or Connecticut. WorldCom is unable to enter New Jersey due to Verizon's above cost rates, which would not be altered by the grant of section 271 authority. Huffman Decl. ¶ 6.

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[6] In the Matter of the Board's Review of Unbundled Network Element Rates, Terms and Conditions of Bell Atlantic - New Jersey, Inc., Docket No. TO0060356, Agenda Meeting Transcript at 40-41 (N.J. Bd. Pub. Utils. Nov. 20, 2001).

II. VERIZON'S SWITCH AND LOOP RATES ARE IMPROPER

The price squeeze in New Jersey can be explained at least in part by the known TELRIC errors with both Verizon's switch and loop rates, although additional errors may be apparent once the New Jersey BPU issues its written order explaining how it arrived at the UNE rates that it recently established for Verizon.

A. Verizon's Switching Rates Are Not at TELRIC Levels

Switching is a crucial input for local competition, but Verizon's UNE rates for switching are unreasonably high and are not cost-based. Verizon set its switching rates in New Jersey using the Switching Cost Information System ("SCIS") model, and made errors in both methodology and input. WorldCom is unable to quantify the precise effect of these problems because Verizon has withheld the information required to make such calculations. Frentrup Decl. ¶¶ 3, 7. But it is clear that there are sizeable problems with the model and the inputs used for the development of switching costs that have resulted in rates that are excessive because Verizon overestimated switch costs and underestimated demand. Id. ¶ 10.

Usage Rates Fail to Account for Almost One-Third of Year. Verizon uses an incorrect methodology for determining the number of switching minutes. Verizon determines the size of the switches needed based on peak usage for the switches. It then applies a busy hour to total usage ratio to determine the total minutes that will be divided into the switch cost to determine the switch rate. However, after obtaining the average daily usage in this manner, Verizon then multiplies that usage by only 251 days, which is the number of weekdays, less holidays, in a year. This methodology for determining the number of minutes in a year effectively assumes that there are no minutes of calling on the weekends or on holidays, but then Verizon charges CLECs for weekend and holiday usage. Frentrup Decl. ¶ 11.

Using only peak minutes to set switching rates is a clear violation of the TELRIC methodology, which requires that all usage be considered in determining rates. Even the very conservative assumption that usage on non-peak days is only half the level of usage on peak days means that the switch usage rates should be 18.5 percent lower. The Commission should require Verizon to correct this clear error by reducing Verizon's switch usage rates by 18.5 percent, or alternatively to offer switching usage at a zero rate in off-peak periods, before it grants section 271 authority to Verizon. Frentrup Decl. ¶ 12.

Vertical Features Improperly Included in Usage Rates. This overstatement of switch usage rates is exacerbated by the inclusion of the cost of vertical features in the switch usage rate rather than the port rate. Despite the fact that the cost of vertical features does not vary by usage, Verizon recovers those costs in the per minute switch usage rates. This increases the cost in the usage portion of the switch, which is divided by the understated peak minutes, which further inflates the switch usage rate. Verizon should be required to recover the vertical features cost in the port charge, and either increase the minutes to reflect usage on all 365 days of the year, or provide usage at a rate of zero for the off-peak days. Frentrup Decl. ¶¶ 4, 13.

Improper Switch Vendor Discounts. Verizon failed to use the appropriate discount from the list price for switches. The New Jersey BPU directed Verizon to compute its switching costs based on 79 percent of the switches receiving the discount for purchases of new switches and the other 21 percent receiving the smaller discount for purchases of growth switches.[7] In the development of the Synthesis Model in the FCC's Universal Service proceeding, the Commission determined that it should rely only on the initial switch vendor discounts – the very substantial discount that a Bell Operating Company ("BOC") typically receives when it purchases a new switch – and expressly rejected reliance on switch growth discounts. The Commission concluded this was appropriate, because initial switch purchases reflect cost-effective forward-looking technologies. USF Tenth Report and Order ¶ 317; Frentrup Decl. ¶ 15.

It is impossible to determine the amount by which switch costs are inflated by Verizon's use of the growth discount, because Verizon has not reported this input in its filing. It is clear, however, that using only the new switch discount would reduce both the switch usage and port rates closer to a level that would allow competitors to enter, but the reduction cannot be computed without the cost models and data that Verizon failed to provide. Frentrup Decl. ¶ 16.

[7] The Commission is aware from the record developed in Texas that the switch vendor discount used by the Texas Public Utilities Commission was approximately 70%. In addition, in the Massachusetts section 271 proceeding, Verizon eventually permitted WorldCom to provide the Commission with evidence of the very large New York switch discounts that are on the record as part of the current New York state proceeding to correct switching rates in New York. On April 5, 2001, WorldCom submitted that information in a proprietary ex parte submission in Docket No. 01-9.

Improper Intra-Switch Calls. Verizon further increases the switching costs of CLECs by the practice of charging its inflated switching rate twice for intra-switch calls, even though an intra-switch call passes through the switch only once. This "double-charging" for intra-switch calls has no justification and was explicitly rejected in both New York and Massachusetts. It should be rejected for New Jersey as well. Frentrup Decl. ¶ 14.

Comparison of New Jersey UNE Rates. Verizon asserts that its rates in New Jersey are below the rates in both Massachusetts and New York, but does not discuss the relationship of its New Jersey rates to the pending rates contained in the Administrative Law Judge's Recommended Decision currently before the New York Public Service Commission. The New Jersey rates are approximately 30 percent above those recommended rates, even though New Jersey switching costs are about 3 percent below New York rates according to the Synthesis Model. Frentrup Decl. ¶ 17.

B. Verizon's Loop Rates Are Not TELRIC-Compliant

Verizon has several TELRIC problems with the inputs used to determine its loop rates. Verizon has not provided the cost models and precise inputs used to develop the loop rates on which it relies in this section 271 application, so it is again not possible to quantify the effect of Verizon's incorrect inputs on rates. However, it is clear that correcting these errors would lower loop costs and, until these changes are implemented, Verizon's loop rates remain improperly above TELRIC levels. Frentrup Decl. ¶ 18.

Fiber Feeder. Verizon assumes 60 percent fiber cable in the feeder, with the remaining 40 percent served on copper. Although fiber is often the lowest cost, most efficient forward-looking technology, in some cases copper feeder is cheaper, such as when customers are located close to the central office. These percentages are inputs to Verizon's cost model, rather than derived as the result of cost optimization. The Commission's Synthesis Model, which is based on cost optimization, resulted in only about 30 percent fiber feeder for the state of New Jersey. Frentrup Decl. ¶ 19.

Fill Factors. The fill factors assumed by Verizon for fiber and copper cable are unreasonably low, resulting in overstated loop costs. For distribution cable, Verizon assumes only a 53 percent fill factor, while the Synthesis Model assumed a 75 percent fill factor in all but the lowest (0 to 5 lines per square mile) density zone. Similarly, Verizon assumed a copper feeder fill factor of 75 percent, which is lower than the 82.5 percent fill factor the Synthesis Model assumed for all but the lowest density zone. Finally, Verizon assumed a 77.5 percent fill factor for fiber feeder, which is low compared to the 100 percent fill assumed in all zones in the Synthesis Model. These low fill factors inflate loop costs by requiring the use of larger cable sizes than are necessary. Thus, Verizon's loop rates are not compliant with TELRIC principles. Frentrup Decl. ¶ 20.

As in the case of switching rates, WorldCom has not been provided access to the cost models or inputs used to set loop rates in this proceeding. Without this information, we are unable to quantify the effect of changing these inputs. However, it is clear that correcting these errors would notably lower loop rates. Frentrup Decl. ¶ 21.

CONCLUSION

Verizon's New Jersey application should be denied.

Respectfully submitted,

Robert Lopardo
Keith L. Seat
WORLDCOM, INC.
1133 19th St., N.W.
Washington, D.C. 20036

(202) 887-2993

January 14, 2002

CERTIFICATE OF SERVICE

I, Vivian Lee, do hereby certify that copies of the foregoing Comments of WorldCom, Inc. were sent via hand delivered (as indicated) or e-mailed to the following on this 14th day of January, 2002.

Janice Myles*
Common Carrier Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Qualex International*
445 12th Street, SW
Washington, DC 20554

Julie Veach
Common Carrier Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Susan Pie
Common Carrier Bureau
Federal Communications Commission
445 12th Street, SW
Washington, DC 20554

Scott H. Angstreich*
Kellogg, Huber, Hansen, Todd & Evans
Sumner Square
1615 M Street, NW, Suite 400
Washington, DC 20036

Anthony Centrella
Division of Telecommunications
New Jersey Board of Public Utilities
Two Gateway Center
8th Floor
Newark, NJ 07102

John M. Lynch
US Department of Justice
Antitrust Division
Telecommunications Task Force
1401 H Street, NW, Suite 8000
Washington, DC 20530

*HAND DELIVERED

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Vivian Lee